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SUBJECT: The Japan Economic Scope--November 8, 2007

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¶23. This Week's Cables

¶3. (SBU) EisMAP and Fostering Sustainable Development in the Asia/Pacific Region
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Japan's Foreign Ministry and the University of Kyoto hosted a seminar of Japanese officials, business people and academics with counterparts from the region Oct. 25 -- 26 to discuss factors influencing development in East Asia. Participants generally saw the region benefiting from globalization, perhaps at a higher level than other parts of the world. Global imbalances, e.g., the U.S. current account deficit and the surpluses in China and some other countries in the region, "the spaghetti bowl effect" resulting from multiple free trade arrangements, and energy/environment were frequently cited as concerns and opportunities by the various speakers.

The Japanese sponsors, however, did not seem to win much strong support for one of their key purposes of the meeting, consideration of establishing a shared data base with economic, social, environment, and other data pertinent to measuring a country's development progress. Participants from the UN Economic and Social Council for Asia and the Pacific, the IMF, and the OECD all noted work their organizations already do to collect, analyze, and make available reliable data. One idea suggested by some of the academic participants, that the EiSMAP be housed in APEC raised questions among other participants as to whether it would fit into the agreed areas of work.

POLITICS

¶4. (SBU) Deja vu...D(PJ)eja -Vu

In another turbulent week for Japanese politics, opposition Democratic Party of Japan (DPJ) leader Ichiro Ozawa offered his resignation, only to be asked by the party to stay. He eventually withdrew the resignation.

The drama erupted after two one-on-one meetings between Ozawa and Prime Minister Fukuda, in which the possibility of a grand coalition between the DPJ and ruling Liberal Democratic Party (LDP) was raised. Who originated the proposal has been hotly contested, but Ozawa described the DPJ's swift rejection of the proposal as like a "vote of no confidence." After tendering his resignation, Ozawa lashed out during a press conference, doubting the DPJ's ability to govern and its chances in a general election.

Ozawa ends the kefuffle at the DPJ's helm, but the cost of the episode remains unclear. The DPJ's support rate in polls dropped slightly, and party internal squabbling spilled into the press.

For more detail, see Tokyo 5059, 5114, and 5138. (ECON: Marc Dillard)

¶5. (SBU) Unlikely to Get into Business School

The opposition Democratic Party of Japan (DPJ) will receive no A's in the Japan Business Federation's (Keidanren) annual report on party policies, according to a draft report obtained by the press. Put in the language of a report card, the DPJ's "policy GPA" would be a C-. Keidanren assesses party policies across ten areas, awarding grades from A (completely in line with Keidanren) to E (totally opposed).

Liberal Democratic Party (LDP) policies will fare somewhat better, with a B+ average. According to the Nikkei newspaper, Keidanren values the LDP's work on decentralization of power

and education policies and is especially critical of the DPJ's stances on foreign affairs and employment policies.

This year's evaluation of party policies have been delayed by more than a month, as Keidanren tries to assess the DPJ's more prominent role in the Diet. Some member companies use the evaluation in decisions about political contributions. (ECON: Marc Dillard)

¶6. (SBU) Secretary of Defense Robert Gates Visits Tokyo

Secretary of Defense Robert Gates arrived in Tokyo on November

SIPDIS
¶7. His two-day schedule includes meetings with Prime Minister Fukuda, Chief Cabinet Secretary Machimura, Foreign Affairs Minister Koumura and Defense Minister Ishiba.

In addition, the Defense Secretary will give a speech on the East Asia Pacific security architecture to 120 students at Sophia University with an opportunity for students to ask questions.

Gates will join some enlisted service personnel for lunch at the U.S. military-operated New Sanno Hotel, and will enjoy a cultural presentation of traditional dance and martial arts demonstrations at Meiji Shrine. (ECON: Charlotte Crouch)

ASIAN ISSUES

¶7. (SBU) Chinese Outmaneuvering Japanese Industry with Aid to Africa

Although ostensibly not trying to compete with Chinese-financed development projects, the GOJ is considering extending yen loans to Angola and may focus assistance efforts there to serve as a model for development in Africa according to an executive at the Japan Business Federation (Keidanren).

The official noted Japanese business is frustrated with the lack of progress in the Tokyo International Conference on African Development (TICAD), in contrast to what is seen here as China's highly effective aid-for-resources strategy. Please see Tokyo 5132 for more on this topic. (ECON: Sally Behrhorst/Eriko Marks)

¶8. (U) Japan, New Zealand Sign Strategic Oil Reserve Pact

Japan and New Zealand signed a pact on November 5 which allows New Zealand access to Japan's strategic oil reserves for emergency use, according to a METI press release.

New Zealand may purchase up to 90,000 metric tons, or 659,700 barrels of oil from Japan in 2008 and could apply this amount toward the 90-day strategic reserves required under its commitments to the International Energy Agency (IEA).

This is the first time Japan has entered into such an agreement. METI sources said, should New Zealand opt to purchase Japanese oil, the reserves would come from Japan's private sector stockpile and not from national reserves. (ECON: Sally Behrhorst/Eriko Marks)

SCANDALS

¶9. (SBU) Press reports on MOD's "Cozy" Relationship with Defense Subcontractors

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Local newspapers and TV news covered the former Vice Defense Minister Takemasa Moriya's testimony to the Diet which shed new light on the "cozy" relationship between Defense Ministry officials and the trading companies that assist in defense procurement.

Embassy enforcement officials closed in on a suspect believed to have provided export controlled items to a subcontractor in Tokyo. The American citizen suspect took the 5th Amendment and hired a lawyer.

Japan is probably unique in the extent to which trading companies play a central role in the procurement of defense-related and other equipment from foreign manufacturers. See Tokyo 4928 for details on a related defense procurement problem involving falsified documentation for night vision goggles, also covered in the Japanese press. (ECON: Charlotte Crouch)

¶10. (U) MLIT Press Release Discloses Fraudulent Fire Retardant Building Material Tests
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Nichias Corp., which is a major building material maker in Japan, submitted falsified building materials tests to the Ministry of Land, Infrastructure and Transport (MLIT), according to newspaper reports November 2 and 3.

The company fabricated the performance of its fire resistant construction materials used in houses and other buildings nationwide through Japan's major home builders. According to a press release on MLIT's homepage, the ministry set up a team at the Center for Housing Renovation and Dispute Settlement Support to respond to consumers' inquiries on this issue.

MLIT has also already revoked 16 of the 20 approvals the company obtained because of the products' failure to meet the required standards. Minister Fuyushiba stated he was extremely disappointed that the company has falsified statements about its product. (ECON: Junko Nagahama)

¶11. (SBU) A Private Postal Affair: Employee Fired

Japan Post Group's mail delivery subsidiary fired its first employee for disciplinary reasons since postal privatization began, media reported November 8. The 32-year-old employee was apparently reluctant to deliver mail; more than 1,000 undelivered letters and post cards were reportedly found

stuffed in his desk, his locker, and in his home.

Interviews with co-workers suggested that the employee's errant behavior had persisted for years. Formerly, the employee had status as a civil servant, but that changed when postal privatization began October 1.

In addition to being fired, the employee was charged with violating postal laws. (ECON: Marc Dillard)

¶12. (U) Nagoya Slush Fund "Scandal" Produces No Titillating Disclosures
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Nagoya Mayor Matsubara held a press conference October 7 to respond to growing concerns over a slush fund scandal that hit the press at the end of October.

Local media allege that ten wards and two sections in Nagoya City have accumulated about 92 million yen (about $800,000) in slush funds over the past 15 to 30 years. The funds were originally uncovered through a whistleblower's e-mail to Nagoya's public hearing section on September 10.

The city began its own investigation, and was able to keep it out of the press for over a month. The ward offices in question allegedly hoarded money from the margins of normal expenditures and excessive claims for part-time staff to spend off-budget on mundane office items such as computers, umbrellas, and shelves.

To date, there have been no allegations that any city staff profited personally or used the funds for personal entertainment. (Nagoya: Tamiki Mizuno)

TRADE AND BUSINESS

¶13. (U) Part of Nova Salvaged By M&A Operation

Nagoya-based G..communication, a firm currently operating 1924 restaurant and education outlets throughout Japan, announced November 6 that it will acquire 30 English schools from the failed Nova Corp. and plans to take over up to a total of 200 Nova schools in the near future.

G..communication has reportedly offered to retain Nova's English teachers at the schools it is acquiring (but not necessarily pay the back salary owed them by Nova) and employ many other Nova teachers at existing G..communication English centers and cram schools.

G..communication was founded in 1994 by then 25-year-old former Gamagori City bureaucrat Masaki Inayoshi, but the company only started to grow rapidly in 2006, when it began aggressive mergers and acquisitions activity. (Nagoya: Dan Rochman)

¶14. (SBU) Call to Launch U.S. - Japan EPA Talks

Most Japanese media covered the story out of Washington that the U.S. - Japan Business Council would like to see the two countries launch free trade talks by 2009. The news has not generated much excitement, with little if any editorial commentary to speak of so far. A Trade Ministry official told us on November 7 he welcomed the news.

The timing of the announcement comes precisely as Japanese negotiators are in Canberra to resume talks with the Australians on a free trade agreement.

Japan's Agriculture Ministry (MAFF) remains strongly opposed to substantial liberalization of agricultural trade with Australia. Observers note that MAFF's opposition is in part because the ministry fears a deal with Australia would only increase the likelihood of having to work out a deal with the United States later. (ECON: Nicholas Hill)

FOOD AND FARMING

¶15. (U) Japanese Rice Exports

With an export beachhead established in China over the summer, Japan aims to start exporting rice to Russia this month. Despite rice prices sometimes in excess of 10 times the world price, Japanese farmers are finding a market among Russia's increasing numbers of high-end consumer outlets, including Japanese restaurants. The initial cargo in November will be 0.6 tons.

According to the Ministry of Agriculture (MAFF), Japan's agricultural exports were worth 400 billion yen in 2005. The

Ministry aims to raise agricultural exports to 1 trillion yen by 2013, although some observers describe this as a quixotic goal.
MAFF claims to be pleased with the reception Japanese rice has had in China, where 24 tons have been shipped since the market opened in June. (ECON: Nicholas Hill/Ryoko Nakano)

¶16. (SBU) Ag Reform: Prospects Dim Despite Good Intentions

The urgency to reform Japan's agriculture sector is felt by many in the know, but prospects to bring it about remain slim. During a November 1 meeting of the Council on Economic and Fiscal Policy (CEFP), the Agriculture Ministry (MAFF) unveiled a paper with farmland reform proposals that would focus on consolidating land.

The report proposes a new system that would allow farmers to extend leasing terms from six to 20 years, and to eliminate derelict farmland within five years. The average size of Japanese farms is about 1.6 hectares, only one percent of the average U.S. farm.

Prime Minister Fukuda, present in his capacity as Chair of the CEFP, underscored during the November 1 session the need for Japan to press ahead on farm sector reform. Press reports afterward, however, were skeptical that the reforms the government was putting forward would be enough.

The media pointed out that the Prime Minister's policy speech after taking office in September on agriculture called for more resources to be devoted to small-scale and elderly farmers--a policy approach at variance with the need to encourage more consolidation in the sector. (ECON: Nicholas Hill/Ryoko Nakano)

¶17. (SBU) CEFP Private Members Want More, Not Less, Agricultural Reform
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After MAFF presented its report to the Council on Economic and Fiscal Policy, the private members of the body, including Japan Business Federation (Keidanren) Chairman Mitarai, urged the government to consider more measures to boost productivity of rice farmers, who make up 70 percent of Japan's total farming population.

In a report they submitted at the CEFP session, the private members -- who come from academia and business and tend to be more reform-minded than the larger body -- also want to see more measures to encourage corporate farming and a more aggressive approach to consolidating farmland.

An agricultural economist we talked to on November 8, close to the CEFP private members, expressed skepticism that MAFF's current call for more farmland consolidation would go anywhere given the political climate. He was resigned to the fact that nothing on agricultural reform would pass the Diet in advance of a general election. (ECON: Nicholas Hill/Ryoko Nakano)

AVIATION

¶18. (SBU) Japan Liberalizes Foreign Carriers' Access to Rural Airports
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Japan has liberalized foreign air carriers' access to rural airports in principle in a bid to help invigorate rural economies, according to a November 2 announcement from the Ministry of Land, Infrastructure and Transport (MLIT).

MLIT Deputy Director General of the Civil Aviation Bureau,

Ryuhei Maeda, told U.S. airline representatives that this program is only for Asian airlines. The liberalization has effectively been implemented since the idea is included in the government's Asian Gateway initiative to promote international exchange in May.

Narita, Kansai and Chubu international airports and Haneda and Osaka airports are not on the list of airports participating in this program. (ECON: Charlotte Crouch)

STOCKS

¶19. (U) Tokyo Stock Prices Lose 2.0 %, Lowest Close in Two Months

Following both a steep fall on Wall Street and the yen's appreciation, Tokyo stock prices dropped sharply November 8. The Nikkei Stock Average lost 325 points, or 2.0 percent to close at 15,771.57, below the 16,000 line for the first time since September 18 and the lowest close since September 10. This represents a decline of 2,490 points, or 13.6 percent, from the recent peak of 18,261.98 on July 9. The TOPOX index fell 2.6 percent on Thursday to 1,516.94, the lowest level since September 18. (FINATT: Shuya Sakurai)

SPORTS

¶20. (U) Japan is Part of Red Sox Nation Too

"This fall, Japan became a Red Sox nation." That is how Gaku Tashiro of Sankei Sports described the phenomena in the Boston Globe on November 6.

Tashiro notes how the Red Sox World Series victory splashed over all of Japan's sports papers, and interest was not just limited to the Red Sox's two Japanese imports -- Daisuke Matsuzaka and Hideki Okajima. For

Meanwhile, the Red Sox may be looking to Japan for more talent as the team's management attempts to restock what is already baseball's most dominant powerhouse. (ECON: Nicholas Hill)

MOFA ACTIONS

¶21. (U) ASEAN-Japan Negotiations

The 11th round of negotiations on the ASEAN-Japan Comprehensive Economic Partnership Agreement will be held from November 4 to 6 in Philippines.

¶22. (U) Japan-Thailand Economic Partnership Agreement

To access the Joint Press Statement for the Inaugural Meeting of the Japan-Thailand Joint Committee on Economic Partnership, see MOFA's website. (ECON: Ritsu Yamashiro)

¶23. (SBU) THIS WEEK'S CABLES
5138 Ozawa withdraws resignation to critical reaction
5137 North Korea: Diet members press for abductions progress before delisting
5134 Governor feeling pressure on Futenma move
5132 Chinese outmaneuvering Japanese industry with aid to Africa
5128 Under Secretary of Defense Clapper presses Defense Minister Ishiba information security

5127 Piracy: Japan not in a position to exercise jurisdiction
5114 Fukuda-Ozawa meetings incite latest political crisis
5113 Japan considering piracy response
5101 DAS Christensen's October 21 meeting with Asian Affairs DDG Kohara

¶24. (U) This SENSITIVE BUT UNCLASSIFIED e-newsletter from U.S. Embassy Tokyo's Economic Section, with contributions from the consulates, is for internal USG use only. Please do not forward in whole or in part outside of the government. The Scope is edited this week by Charlotte Crouch (CrouchCA@state.gov) and Joy Progar (ProgarJ@state.gov). Please visit the Tokyo Econ Intranet webpage for back issues of the Scope. Apologies, this option is only available to State users. Please contact Joy Progar if you are from a different agency and are interested in a back issue.
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